

Property and Casualty Insurance:

Prospering in a Post Pandemic World



Abstract

More than a year into the COVID-19 pandemic, property and casualty (P&C) insurers are still assessing the impact of this global crisis. While the impact has been varied on the different streams, with dwindling premium income in personal lines, increasing demand in professional liability, and a slowdown in specialty lines, it can be said with certainty that the ripple effects of the crisis will last a few years. The breakout of the pandemic was marked by efforts to mitigate the negative impact on P&C customers and ensure business continuity. However, the focus of P&C insurers must now shift to rapid digitalization to reimagine business operations for a post pandemic future. This white paper traces the impact of the crisis on P&C insurers and recommends strategies for growth and transformation. The paper also discusses how insurers can accelerate digitalization while future-proofing themselves to withstand similar scenarios in the future.

Analyzing the impact on P&C Insurers

Insurers are adjusting their response based on the phase of the crisis, which needs to be addressed in four stages – **crisis, transition, post-COVID-19, and future-proofing**. In the initial crisis phase, P&C insurers faced new challenges such as ensuring continuity of operations, maintaining customer confidence while allaying fears, safeguarding employees and enabling them to deliver at pre-crisis levels, and meeting customer service expectations amid supply chain disruptions. They also had to contend with policyholder issues that ranged from uncertainty of coverage for business interruption to the inability in getting timely service. Despite the extenuating circumstances, P&C insurers have efficiently managed the crisis phase.

In the subsequent phases, major functions across various areas within P&C insurance subdomain are set to be impacted (see Figure 1). An analysis of COVID-19 headwinds and response of insurers in the crisis phase can yield key insights on how technology can be harnessed to contain the impact in the upcoming phases.

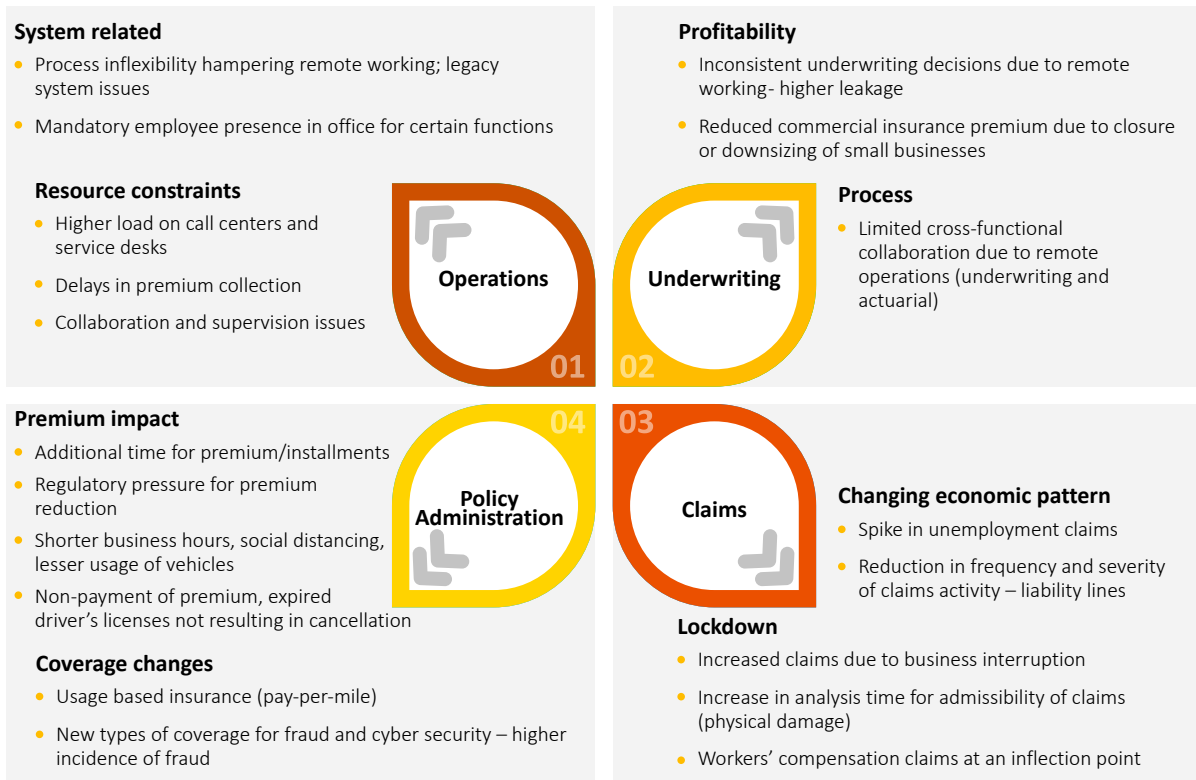


Figure 1: Impact of the Pandemic on Key P&C Business Functions

In addition to functional areas, the pandemic has affected business areas as well. Policy acquisition costs have increased while premium incomes have reduced due to a drop in asset and vehicle purchases. IT and other operational costs have increased. In response, P&C insurers have switched to variable cost models to build supply chain resilience and modified product features through externalization of product configuration. With the business interruption clause becoming a common feature of commercial contracts, insurers have witnessed a huge surge in claims. The claims adjustment function, however, is still constrained by the absence of on-the-field adjustors as well as lack of digital tools and platforms to enable remote adjustment. Insights garnered from an in depth understanding of the customer journey have helped leading insurers proactively engage with customers and explain the changes to renewal processes and validity of covers due to the pandemic. Insurers' investments in chatbots have paid off – customer queries were efficiently handled by virtual assistants, in contrast to the large gaps in broker- and agent-led services.

Navigating the pandemic: An action plan for P&C insurers

P&C insurers are currently in the **transition** period. They need to assess crisis handling, evaluate the solutions implemented, and identify options to strengthen, upgrade, and implement alternative solutions. Firms must explore and identify new avenues and value propositions with the potential to contribute to long-term growth — long-term strategies must be based on the lessons learnt from the crisis phase. It is clear that the impact on personal lines' claims frequency will extend into the ensuing phases even as lockdowns and quarantines make sporadic appearances across the world. With work-from-home having become the norm and consumers increasingly shopping for personal and financial products online, individuals and businesses are yet to revert to pre-pandemic behavior while the uncertainty continues. For instance, the use of personal vehicles has dropped due to limited functioning of businesses and spiraling unemployment.

Operations

P&C insurers must revisit their auto, home, cyber, business interruption, and workers compensation products. Based on the lessons of the crisis phase, insurers must introduce coverage and rate changes, initiate additional pandemic covers, and update policy conditions and how they are worded. For instance, P&C insurers can consider restructuring traditional products to cover extended or modified business activities and prepare for a surge in cyber insurance policies. Capacity expansion to handle increased customer queries and reskilling employees to take care of policy changes are essential for customer centricity.

Technology imperatives

Artificial intelligence (AI) backed automation, advanced analytics, and big data capabilities for fraud prevention are the key levers of digital transformation. Successful re-imagining of the P&C insurance processes mandate transitioning from legacy to nimbler systems to achieve end-to-end digital journeys and deliver enhanced customer experience. Speeding up cloud migration, revisiting digital strategies, recalibrating core modernization programs, and continuing with regulatory programs are critical to overcoming the slack developed during the crisis.

Growth as a key business driver in the post COVID-19 phase

As businesses start to reopen, demand for new types of cover will rise steadily, since firms will need to cope with the additional risk of increase in infections. Fraud claims will likely be higher, which should drive the design of new cyber products to cover cyber risks. Given the changed market dynamics, we believe P&C insurers must initiate specific actions across operations and digital enablement as they navigate the upcoming phases.

In the **post-COVID-19 phase**, bringing in stability by vigorously implementing growth strategies identified during the transition phase must be top of mind. The path to recovery and revitalization is arduous and will mandate significant changes in products, business functions, and distribution channels. Furthermore, embracing the ecosystem concept to unlock the compound effect, taking calculated risks to explore new opportunities, and adopting a purpose-driven approach that focuses on meeting the purpose that drives customers, will require a shift from the traditional silo mentality to a collaboration mindset. In our view, the digital transformation-led business shifts will traverse three horizons (see Figure 2).

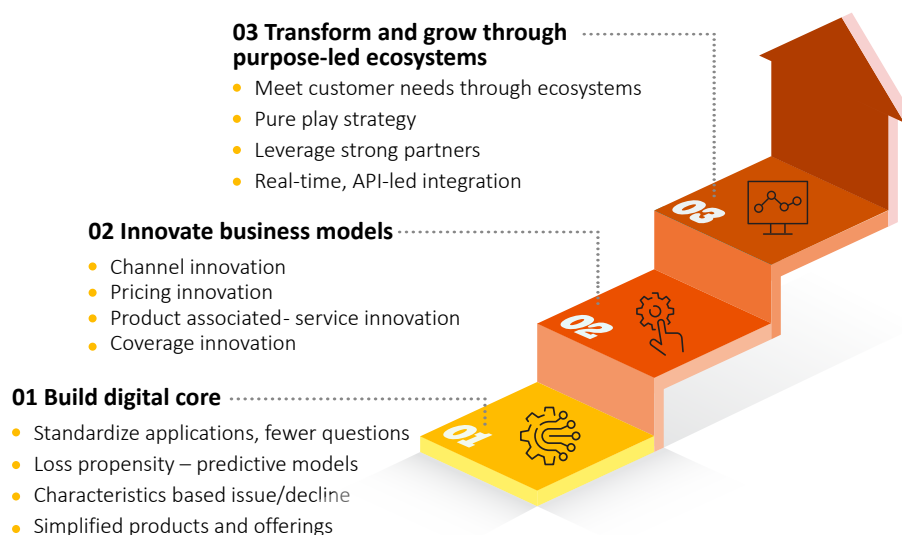


Figure 2: Three Horizons to Purpose-led Growth for P&C Insurers

Digital core

Leading insurers accelerated their digitalization programs once the crisis struck, realizing that end-to-end digitalization would be key to growth. Process re-imagination across the insurance value chain and developing suitable digital solutions for each stage is crucial to recalibrating the digital transformation roadmap with appropriate digital enablers. A digital core, built using cloud and data analytics capabilities, will enable hyper-personalized products and service differentiation. Digital business flows leveraging external data sources and AI technologies will enable insurers to embrace touchless underwriting. Processes must be digitalized to enable policy completion through digital self-service. Enhancing e-agents will help minimize personal connect as social distancing becomes standard safety procedure. Adopting an automation and rules-driven approach will help usher in next-gen claims processing, besides ensuring customer communication and tracking through chatbots.

Business models

Key market drivers have forced the evolution of the insurance business model from the traditional brick-and-mortar avatar to the digital insurer. Internal factors such as declining margins, increasing overheads, and plummeting investment returns coupled with external factors such as demand for hyper-personalization and blurring industry boundaries are accelerating this shift.

Distinct enablers drive business model innovation components:

- **Channel innovation:** Leverage customer information and partner with retail and travel players to create new revenue streams. Avoiding customer resentment due to manual handoffs by enabling digital engagement and self-service features will be key.
- **Pricing innovation:** Explore subscription- and lifestyle-based pricing and integrate with usage- and behavior-based pricing models.
- **Product associated service innovation:** Provide value-added services while bundling insurance across product groups, paving the way for simpler products tailored to individual customers' needs.
- **Coverage innovation:** Introduce new types of coverage encompassing cyber insurance, on-demand insurance, microinsurance, and emerging risk needs.

Purpose-led ecosystems

P&C insurers must opt for a pure play strategy to build digital ecosystems comprising non-insurance players, third-party data exchanges, insurtechs, and sensor companies, among others, to enable radical innovation and meet customer needs across sales and service. Insurers must also explore partnering with companies that offer roadside assistance and residential repairs besides financial institutions offering loans and investment advice.

Future-proofing

Following concerted action aimed at achieving stability, P&C insurers will be able to focus on transformation initiatives centered on future-proofing and driving sustainable growth. In this phase, they must focus strongly on accelerating innovation and growth, completing the transformation initiatives launched in the post COVID-19 phase, revisiting ecosystem partnerships and legacy modernization programs, and reimagining core functions. Initiatives centered on end-to-end digitalization, customer-centric business models, foraying into new markets, and introducing new offerings and revenue streams must be at the forefront of insurers' transformation agenda to build long-term resilience — a prerequisite to weather future COVID-like shocks.

Focusing on the future

Having addressed the pandemic risk, insurers need to re-examine ways to support customer needs in the context of an evolving social and economic landscape to assure stability and growth. We believe that utilizing analytics and AI technologies to manage risk, leveraging adjacent industry ecosystems, and enhancing focus on loss prevention is the key to increasing profitability and customer satisfaction. All this cannot be achieved without a focused digital transformation across business functions, and P&C insurers that act quickly will surge ahead of the competition.

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